

## Options abound for greater disability coverage

**Q:** *I have group disability insurance through my employer that pays a maximum 60% of salary up to \$10,000 maximum per month. I earn a \$205,000 annual base salary. Can I buy an individual disability insurance policy? If so, how much do I need to buy to be able to get back almost 100% of my after-tax take-home salary of about \$125,000 a year?*

**A:** Disability insurance providers do not want to insure you for 100% of your income due to the "moral hazard" of reducing the incentive to return to work. Individual disability policies always will ask about the existence of any other such insurance and coordinate the limit the total benefit to between 60% and 70% of your gross income. If you add a group policy to an existing individual policy, then there may or may not be "coordination" of benefits after the fact, something you will need to read the fine print on both policies to discern.

You have several options for increasing your coverage. First, if you pay for the premiums with post-tax funds, the benefits themselves will be tax free. This in itself almost gives you the same buying power of your current income on an after-tax basis. Second, you can buy a policy that that only adds to your retirement plan benefits in case of a disability, meaning it does not count against the allowable replacement of income limits. Finally, many individual disability insurance policies allow a special rider for severe injuries that adds thousands of extra dollars a month in extra benefits at an affordable price.



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